# Explanation of Postemployment Benefits Other Than Pensions

**What are other post employment benefits?**
Any benefits other than pensions offered employees after retirement which has any direct or implicit cost to the County. For Shelby County, these consist of health insurance and life insurance provided to retirees.

**Why are they an issue?**
The Governmental Accounting Standards Board has adopted a new pronouncement that changes the accounting requirements effective for our fiscal year 2008 (year beginning July 1, 2007). Under the new requirements, we will have to account for these benefits similar to our pension plan. Although there are some alternatives, realistically to satisfy the bond rating agencies, we will have to create a trust fund like our pension trust fund. Each year we will need to pay into this trust fund an actuarially calculated amount of future benefits earned by our employee for that year. In addition, the amount earned prior to July 1, 2007 should be paid in installments over 30 years.

**What is our current cost of retirees' health and life insurance and how is the amount determined?**
Our cost for retirees' health and life insurance fiscal 2007 is budgeted to be $13.2 million. Premium amounts for retirees and the county are set annually based on our actual cost. These premiums are paid into the Group Health and Life Insurance Funds. This amount represents the amount actually paid in claims for the year and, as such, this payment method is called pay-as-you-go. The health insurance rates relatively reflect the actual cost for retirees. However, the life insurance rates are the same for all employees and retirees which dramatically understate the actual cost for retirees.

**What is the accrued liability and how much is it?**
The accrued liability represents the present value of estimated future payments to all employees and retirees at a point in time. To determine the present value, you have to estimate the interest rate you would earn on the money used to pay these benefits. If you have the money to pay the benefits in a trust fund, like we do for our pension plan, then the discount rate is the rate you expect to earn on those investments. In this case you would use a longer term rate of 7.0% or 7.5%. However, if these benefits have not already been funded, as will initially be our case, the discount rate is the rate we would expect to receive on investment of our operating funds. The initial actuarial evaluation used 4% and determined the accrued liability to be $488,506,000. This is also called the unfunded liability since no funding has been provided.

**What is the annual required contribution and how much is it?**
The annual required contribution is the actuarially calculated amount earned by employees for the current year plus amortization of the unfunded accrued liability over 30 years. Using the 4% discount rate, the annual required contribution would be $49,052,000 or an increase of $36 million over the current contribution.

**What is more important to us, the unfunded accrued liability or the annual contribution rate?**

The annual required contribution is more important because it is the amount the County needs to actually pay. The unfunded accrued liability is important because it directly affects the annual required contribution in that you have to amortize and pay it over 30 years.

**How can the annual required contribution be reduced?**

The annual required contribution has two components – the current year cost of current employees and amortization of the unfunded accrued liability for both employees and retirees. Changes for new employees will have a very slow impact as they will be a very small percentage of the employees in the plan for several years. Changes in benefits for retirees and deferred retirees can reduce the unfunded accrued liability and the amortization thereof. Changes in the number of employees or the benefits for current employees will change the annual required contribution. It should be noted that the annual required contribution is determined before the start of the year so any such changes have to occur before the annual required contribution is calculated.